Sun Life Assurance Company of Canada
106th Annual Report 1976

Over 6,000 athletes from more than 100 countries gathered in Montreal during July 1976 to compete in the Summer Games of the XXI Olympiad. Our cover picture shows members of the Canadian, German and Italian relay teams after a race. Sun Life was one of the major sponsors of the Games.

ANTI-INFLATION POLICIES

FROM THE ADDRESS
DELIVERED TO THE 105TH
ANNUAL MEETING OF THE

SUN LIFE ASSURANCE COMPANY
OF CANADA

by
THOMAS M. GALT, F.S.A.
PRESIDENT

Montreal, February 10th, 1976

ANTI-INFLATION POLICIES

Two years ago I devoted a good part of my remarks at our Company's annual meeting to the subject of inflation. Last year I expressed the hope that governments, in their concern for recession, would not lose sight of the fact that in the longer run inflation was still a very serious problem.

There now seems to be a much wider recognition of this long-term problem. It is also recognized that if the recovery in the United States and the rest of the developed countries proceeds too fast and turns into a boom there is a serious danger of an increasing inflation in 1977 or 1978, which could well be at rates worse than those we saw in 1974.

The launching of the government's anti-inflation program last October marked the beginning of a new period in Canadian economic affairs. It is a welcome development that the federal government has at last taken some action to combat inflation instead of attributing it almost entirely to external factors. Government inaction had led to ever increasing efforts by different groups in our society to protect themselves against inflation. As a result, mandatory prices and incomes controls were deemed to have become necessary by last October. Two years ago I warned that prices and incomes controls can only provide a limited breathing space, and soon, because of the distortions and rigidities which they introduce into markets, they

aggravate rather than ameliorate inflationary conditions. The government recognized this in announcing its program as it contained four elements of which the prices and incomes controls were properly listed last. The first two elements were fiscal and monetary policies and government expenditure policies and those are vital to the success of the program.

Whenever prices and incomes controls are introduced, it is admitted at the outset that they are not a cure for inflation but only a way of buying a short time in which to apply the cures. Unfortunately this fact then seems to be quickly forgotten. The controls soon tend to be regarded as a substitute for other action.

It is to be hoped that this does not happen in the case of the Canadian program, but so far the indications are not good. Federal government expenditures are to expand at a 16% rate this year. This does not lead to confidence that the program will achieve its objective. As the government has rightly observed, we in Canada will only be successful in reducing our inflation when all responsible elements in the country pull together in co-operation, sharing the burden of adjustment. Spending increases by government at a level of 16% are clearly not in line with either the spirit or the real requirements of the program. Spending increases at a considerably lower rate would be much more appropriate in terms of a real contribution to the lowering of inflation and, what is just as important, would help to create the necessary atmosphere of co-operation.

It is also disturbing that the program is to last three years and possibly longer. There is a serious danger that in that period the distortions and rigidities will indeed aggravate rather than ameliorate inflation. They will almost certainly reduce the efficiency and responsiveness of the economy.

One aspect of the controls that is particularly worrying is the extent to which they will inhibit saving and encourage consumption, thus operating in an inflationary way in the long run. The total freeze on dividends and the cut-back in allowable profits will inhibit saving and capital investment. Particularly questionable would seem to be the freeze on profits made in foreign countries. It is not at all clear how this aspect of the program can possibly contribute to the country's welfare.

Profits are vital to the encouragement of savings and the channelling of these savings into productive investment. They provide the savings needed for new plant and equipment and other costs of business expansion. In an inflationary environment, however, distortion of the profit picture seriously erodes corporate saving ability. "False" profits arising from increased inventory values are subject to the full rate of corporate taxation, and depreciation charges based on original cost become inadequate for replacement purposes. The need for acceptance of inflation accounting and related tax treatment already accepted in other countries seems obvious.

A market economy allows the consumer to vote with his dollars and preserves for him the

greatest freedom of economic choice. Some government interventions, such as anti-trust legislation, which take forms which encourage more competition in the economy and improve the effectiveness of markets, are necessary of course. In recent years, however, many government policies have had an opposite effect. Competition has been lowered, some markets replaced by government pricing mechanisms or hampered in other ways, and economic incentives reduced.

The government makes much of the need for more government control to protect consumers from the supposedly growing size and power of large corporations. Professor Galbraith, of Harvard, and others have built their criticisms of the market system of allocating goods and services on the argument that powerful trade unions, large multi-national corporations and big business generally have brought about a lessening of competition to the point where many prices are no longer established through the reasonably free interplay of the forces of supply and demand.

This, in my view, does not accord with the facts. As many of the briefs to the Royal Commission on Corporate Concentration have explained, bigness of itself is not bad, nor is doing business internationally bad. In our business Canadian consumers have benefited from the fact that many Canadian life insurance companies do business in foreign countries and many foreign life insurance companies do business here. The Canadian Life Insurance Association's submission to the

Royal Commission on Corporate Concentration clearly establishes that conditions in the life insurance business have been steadily becoming more competitive in recent years. It notes that the number of companies licensed to do business in Canada has doubled since 1950, now being 166, and the smaller companies are growing more quickly than the large companies.

In our business prices have been steadily falling for many years. In the case of many insurance and annuity plans, increasing interest rates have enabled premiums and net costs to be reduced. However, even in the case of term insurance rates, on which interest has a negligible effect, the premiums have been steadily falling. As an example from our Company, in Canada the annual premium for a 10 year term policy has been reduced six times since 1950.

The Economic Council of Canada in its twelfth annual review states, "Since 1970, productivity gains have been slower in Canada than in the United States, with the result that our unit costs increased much more; indeed, in the 1970-74 period unit costs increased by about 5% per annum in Canada compared with less than 1% in the United States. ... In the longer-term view, this weakening of our competitive position is cause for deep concern."

This worsening of our competitive position has resulted from the unrealistically high expectations fostered in the Canadian people by rapidly escalating government sector wages

and salaries, rapidly escalating government transfer payments, and rapidly escalating minimum wages. The Canadian federal minimum wage will this year be 26% higher than that in the United States.

Prime Minister Trudeau, in a year-end television interview, was quoted as saying, "The way I view it is that we're going to use these three years of controls in order to get people to change and institutions to change . . ." It would have been much more encouraging if somewhere in his year-end interview and speech he had mentioned the vitally important first two elements of his attack on inflation. Those were the parts dealing with fiscal and monetary policies and control of government expenditures. Instead, he referred to changing the people and predicted that government is going to take a larger role in running institutions.

I join the Prime Minister in welcoming the debate about the future of Canada which his words produced. However, I was disappointed with his implication to the Canadian Clubs of Ottawa that excessive increases in the money supply, in federal spending, and in government interference in the market-place were phoney issues. I believe they are the key issues.

Alexander Solzhenitsyn was recently quoted as saying, "The Western world is now at a turning point. It is going to risk in the coming years the existence of the civilization that created it . . . Time has worn away your notion of freedom. You have kept the word and

coined a new notion, a small freedom that is only the caricature of the big one, a freedom with neither obligation nor responsibility."

The furore which arose over the statement by the Prime Minister that we haven't been able to make the free market system work and therefore need more government controls may indicate that Mr. Solzhenitsyn's remarks do not apply to Canadians. I fervently hope that that is the case. The people of Canada must insist **not** on more government controls but on more responsible action by the government in the areas of fiscal and monetary policies and the control of their own expenditures. This is the only way in which Canada can succeed in the long-term battle against inflation while still retaining more than a "small freedom".

45509 Eng. (UDZM-2-76) 2859

PRINTED IN CANADA

Highlights of 1976 Operations of Sun Life Assurance Company of Canada

	1975	**1976**
Total Payments to Policyholders and Beneficiaries	$ 420,723,000	**$ 479,999,000**
Dividends to Policyholders	$ 95,680,000	**$ 98,798,000**
Assets, December 31st	$ 4,699,301,000	**$ 5,049,261,000**
Earned Interest Rate (Net)	7.11%	**7.51%**
Total Income	$ 1,012,538,000	**$ 1,140,384,000**
Life Insurance:		
New Amounts	$ 3,705,274,000	**$ 3,889,184,000**
Amounts in Force	$28,498,335,000	**$31,795,474,000**
Premiums Received:		
Life Insurance	$ 378,645,000	**$ 406,866,000**
Health Insurance	$ 55,160,000	**$ 63,156,000**
Annuities	$ 95,935,000	**$ 146,664,000**

Notice of Annual Meeting

Every Sun Life policyholder who holds a participating policy which is in force is a member of the Company and is entitled to attend and to vote in person or by proxy at general meetings of the Company, and may obtain a blank form of proxy on request therefor in writing to the Secretary of the Company.

The Annual General Meeting of the Company is held at its Head Office in Montreal at 2:30 p.m. on the second Tuesday in February of each year. Policyholder members are cordially invited to be present.

The Directors

Alistair M. Campbell, F.I.A., F.S.A.
Chairman

Thomas M. Galt, F.S.A.
President

Claude Bertrand, C.C., M.D.
Chief Emeritus, Department of Neurosurgery,
Hôpital Notre-Dame, Montreal

Frank M. Covert, O.B.E., D.F.C., Q.C.
Senior Partner, Stewart, MacKeen & Covert

H. Roy Crabtree, C.D.
Chairman and President, Wabasso Limited

Albert L. Fairley, Jr.
President, Hollinger Mines Limited

Jock K. Finlayson
Deputy Chairman and Executive Vice-President,
The Royal Bank of Canada

J. Peter Gordon
Chairman and Chief Executive Officer,
The Steel Company of Canada, Limited

Eric L. Hamilton
Chairman,
Canadian Industries Limited

G. Arnold Hart, M.B.E., LL.D., D.C.L., D.C.Sc.
Chairman of the Executive Committee,
Bank of Montreal

Louis Hébert, O.C.
Chairman of the Board,
Banque Canadienne Nationale

G. W. Humphrey
Chairman of the Board,
The Hanna Mining Company

Howard J. Lang, P. Eng.
Chairman and Chief Executive Officer,
Canron Limited

Herbert H. Lank
Chairman,
Crédit Foncier Franco-Canadien

The Rt. Hon. Lord Polwarth, T.D., D.L.
Director, Bank of Scotland

Alfred Powis
President and Chief Executive Officer,
Noranda Mines Ltd.

Ian D. Sinclair, Q.C.
Chairman and Chief Executive Officer,
Canadian Pacific Limited

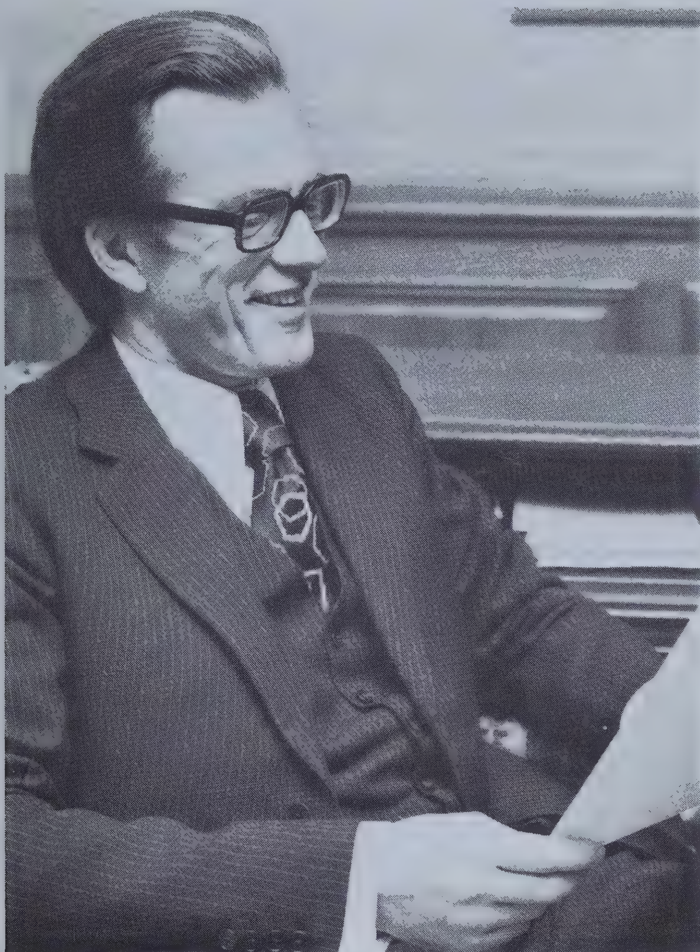
Hon. James Sinclair, P.C.
Chairman, Lafarge Canada Ltd.

J. Herbert Smith, P. Eng., D.Sc.
Director, Canadian Imperial Bank of Commerce

John A. Tory, Q.C.
President, The Thomson Corporation Limited

Colin W. Webster
Vice-Chairman of the Board,
Canadian Fuel Marketers Ltd.

President's Address



Thomas M. Galt, President

Mr. Chairman, Ladies and Gentlemen:

I am pleased to present, on behalf of the Directors, the 106th Annual Report of the Company. The impressive results achieved by the Company are due to the hard and dedicated work of our agents and staff. Their efforts to provide products and service of a superior quality with a high degree of efficiency made the year a most successful one for the Sun Life and its policyholders.

New Business

The men and women in our sales force are trained to give good life insurance advice to their clients, and in 1976 they achieved remarkable results, putting 131,000 new Sun Life policies into force for a record amount of insurance of $3.9 billion. There were increases in sales in each of our main countries of operation — Canada, the United States, Britain and the Philippines. Individual life insurance sales were 20% more than in 1975. The Anti-Inflation Board regulations in Canada had the effect of restraining growth in our group business but, nevertheless, more than $1 billion of new group life insurance was secured.

Eleven thousand new annuity contracts were put into force with $105 million in single and annual premiums — 73% more than in 1975. The Company's very competitive individual annuity rates in Canada account in large part for the sharp growth in sales of this business in recent years.

Group health insurance and group segregated fund business were also affected by the AIB regulations, and sales were somewhat below 1975.

Business in Force

The extent to which our business in force grows each year is a measure partly of sales but also of other factors, including the kind of service we are providing. At the end of 1976 the Company's life insurance in force, at $31.8 billion, had increased by $3.3 billion over the year.

There were also substantial increases in our annuity, health insurance and segregated fund business in force.

Assets

The assets of the Company passed the $5 billion mark during the year and amounted to $5,049 million at the year end — an increase of $350 million.

The net rate of return on life branch assets from interest, dividends and rents was 7.51%, compared to 7.11% in 1975. This was the largest increase in over half a century, and represents the highest rate of return we have ever achieved on our total assets.

Our investment portfolio, which consists of broadly diversified, high quality holdings, showed a good increase in market values in the year.

The high yields available led us to increase our holdings in bonds substantially, and at the year end 43% of our assets was invested in bonds. Our second largest category, accounting for 29% of assets, was mortgages.

Our forward investment commitments at year end amounted to $164 million at 11.31%, mostly for payout during 1977.

Income, Expenditures and Earnings

The Company's total income in 1976 was a record $1,140 million, of which $616 million was in premiums received from policyholders, $328 million was investment income, and $135 million was variable accumulation and other segregated fund income.

The principal items under expenditure were the payments to policyholders and beneficiaries, which amounted to $480 million.

Our operating expenses at $149 million were up 10%. We achieved an improvement in productivity and a reduction in unit costs during the year. The increase in expenses merely reflected the growth of the Company's business.

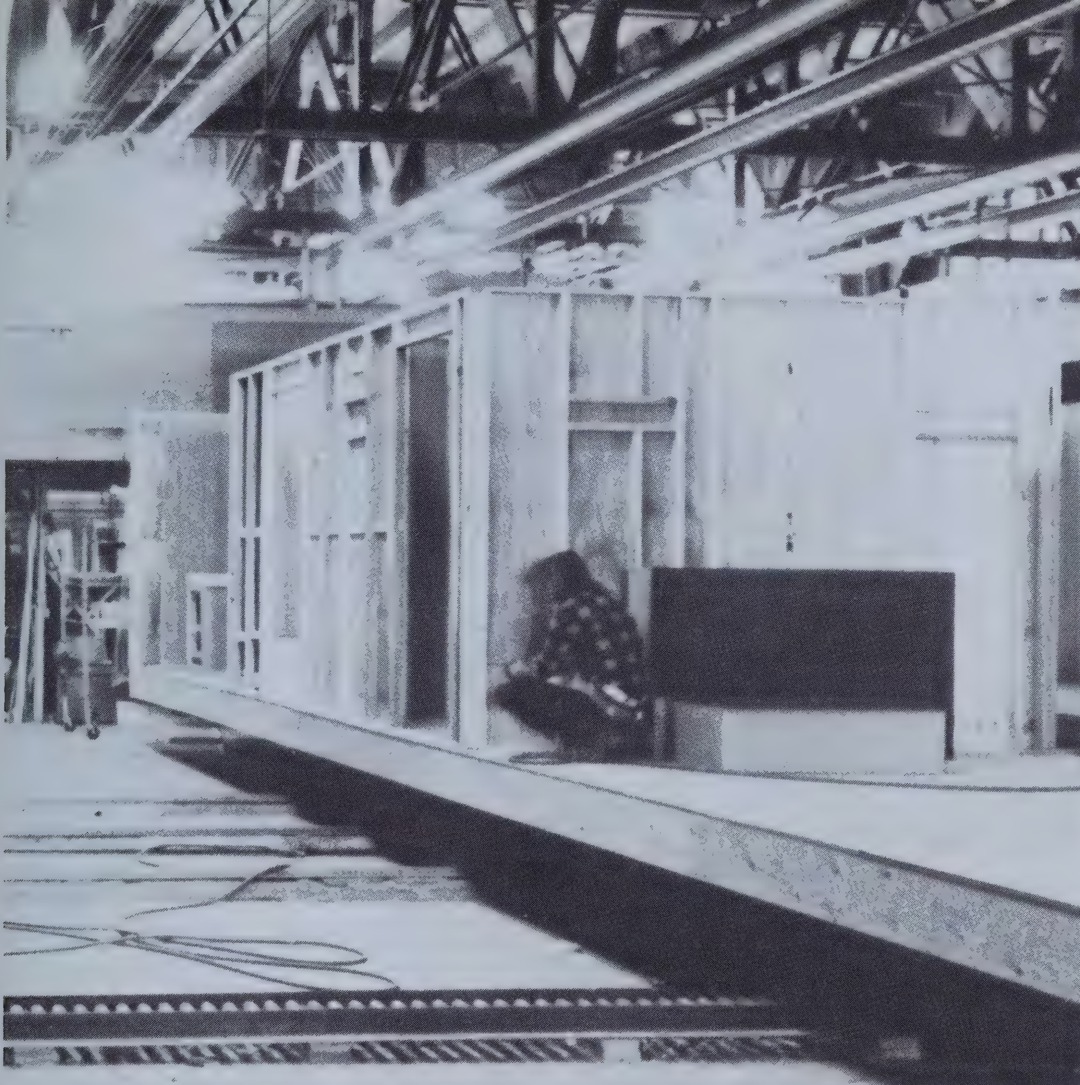
Earnings from insurance operations for the year amounted to $130 million, an increase of $3 million over the previous year. These record earnings resulted from the large improvement in the interest rate, from favourable mortality experience, and from the continued success of our efforts to keep expenses under control. An additional amount of $1.5 million was made from the sale and redemption of securities after adjustment of asset values.

As a result of the improvement in earnings, we are increasing the rate of interest we pay on deposits left with the Company effective April 1, 1977. At the same date, the scale of dividends to most individual participating policyholders in Canada and the British Division will be increased. Dividend scales will be maintained at the same rate as in 1976 in the United States and the Philippines. The dividend scales in effect in each territory reflect the earnings experience of that territory. $103 million has been provided for dividends in the current year. From the total earnings, after providing for dividends to policyholders, $5 million was added to the reserve for fluctuation in security values, and $19.4 million was added to surplus.

Administration and Policyholder Service

By year end the Company's world-wide computer systems had been transferred to our new IBM Model 168 computer, thus improving the efficiency of our data processing throughout the Company. In each country where we operate we adapt our administrative organization to provide the most effective service to policyholders. In 1976, in the United States, with centralized policyholder service we improved our procedures by appointing and training special service representatives in our United States Headquarters Office. In Britain we introduced new and improved computer systems during the year. In Canada we have major Service Centres in each region of the country — the Atlantic Provinces, Quebec, Ontario, the Prairie Provinces and British Columbia — from which individual policyholders can be served with a minimum of delay.

Our concern for efficiency must be balanced by continuing efforts to improve the quality of the service we offer to the public. In this context, we



The Company is a very large provider of group insurance. One of our group long term disability policyholders is ATCO Industries Limited, a leading Canadian manufacturer with headquarters in Calgary and operations located in Canada, the United States and Australia. In the photograph at left work is proceeding on the manufacture of a mobile home at one of ATCO's 14 factories. ATCO pioneered the concept of heavy duty transportable housing and employs 3,150 people. Sun Life also holds investments in ATCO.

have undertaken a number of new initiatives in Canada. We have a 10-day "free look" provision, giving the purchaser of a life insurance policy the right to full refund of premium within 10 days of delivery. Only 1% of the policies sold have been returned under this provision. We now have available for prospective policyholders illustrative policy cost information taking interest into account. We have speeded up our procedures for the payment of policy benefits. We have improved our sales and information material relating to Registered Retirement Savings plans, and introduced new plans for this market. We have commenced a project to simplify our policy forms. In 1977 we will be introducing some underwriting by computer. This will enable our underwriters to concentrate on the more complex matters involved in the reviewing of applications, while permitting a much faster handling of the more routine underwriting operations.

As a result of these initiatives we are now providing better service to our customers than ever before. The number of complaints we receive from policyholders in any given year is small, and has been consistently declining in recent years.

New Services

For some years the Company has been extending its operations into new lines related to traditional life insurance and annuities through the introduction of plans with variable as opposed to guaranteed benefits. These plans now include Variable Accumulation Group Annuities in Canada and the United States; Sun Fund annuities in Canada; variable annuities and a mutual fund, Sun Growth Fund, in the United States; and the Maple Leaf Flexible Investment Plan and personal pension equity-linked policies in Britain. These variable plans have been provided through the parent company, or subsidiary companies set up for that purpose. In 1976 we

continued to develop new services for our customers through the formation of two subsidiary companies in Canada.

Sun Life of Canada Investment Management Limited offers investment management and advisory services to large pension and other benefit funds. At year end this subsidiary had $159 million of assets under management. Sun Life of Canada Benefit Management Limited offers administrative services to large pension funds and actuarial, claims and administrative services to other benefit funds. Sun Life is thus able to provide valuable facilities for clients in addition to its regular insurance and pension plans.

Public Relations

We were proud to have been a major sponsor of the 1976 Summer Olympics in Montreal through the provision of physiotherapy equipment for the clinic in the Olympic Village. This project made it possible for athletes from countries large and small to be treated with the most modern and sophisticated physiotherapy equipment. After the Games, we donated it to hospitals and rehabilitation centres throughout Canada, where we expect it will be put to good use for years to come.

The Olympic Games project was part of the Company's extensive new public relations program designed to encourage Canadians to pursue health and fitness activities. Through the program we provide booklets and films on certain recreational activities. As well, we sponsor a number of important sports events, including the Canadian Ski Marathon between Montreal and Ottawa, and the Sun Life Ontario Invitational Curling Bonspiel. In 1977, together with Participaction — a non-profit organization formed some years ago by the Federal Government to encourage fitness among Canadians — and the Association of Kinsmen Clubs, we will become involved in the building of fitness trails in various community parks across Canada.

We are very fortunate that we have a great enthusiast for physical fitness on our Board of Directors in the person of Dr. Claude Bertrand. He has taken a keen interest in these public relations activities of the Company.

Economic Outlook

In the past year many governments have been exercising greater restraint on spending and on the expansion of the money supply than was the case in prior years. As a result of these policies, improved food supplies, and the rather slow economic recovery, we have seen the rate of inflation come down considerably in many countries, including Canada, the United States, and Britain. This reduction has been welcome indeed. However, it must not blind us to the fact that inflation is still high in all those countries, and does not show signs of reducing very much further in the immediate future.

Having dealt with inflation at some length in my remarks to you in recent years, I had resolved not to inflict the same topic upon you again this year. However, it is a subject of such importance that I cannot avoid it in any discussion of the economic outlook. The Federal Government recently published a very important document entitled, "The Way Ahead: A Framework for Discussion", in which they have attempted to make "a fundamental examination of the major structural components of our economy and our society." It states, "inflation is still Canada's greatest problem", and a great deal of the paper is devoted to this topic. I do not disagree with that assessment.

I think the production of this paper was very timely and I believe it deserves the most careful study and wide discussion. It is far too large a subject for me to do more than touch on this afternoon, but I do want to make a few comments.

In places, the paper is very reassuring. It notes that the market economy, and the price system on which it rests, constitute the most efficient allocative mechanism available. It also states, "Looking beyond the period of controls it is clear that the posture of fiscal and monetary restraint must be sustained." It notes "the necessity to

During 1976 our British computer operations became fully compatible with the Company's total computer systems. The young lady, shown here, is working at a computer data preparation terminal at our London Administrative Office.

increase both the reliance on and the effectiveness of the market system," and it states, "Governments can become too pervasive and oppressive actors in the daily lives of Canadians."

The paper points out that Canada's economic prospects in the 1980's are excellent provided we are able to meet a number of major challenges. One of these is the problem of increasing costs arising from the increasing scarcity of food, energy, and some mineral resources. We have seen this problem demonstrated very dramatically already in the field of energy. It states that it is imperative that price adjustments for particular, scarce commodities not be allowed to feed the general inflationary process, and I fully agree. However, I am concerned as to how that can be avoided when the Federal and some Provincial Governments in Canada are becoming more and more committed to the principle of fully indexing incomes. It is obvious that the purpose of the rise in price of a scarce resource is to allocate that resource in the most efficient way. However, if that item is contained in the makeup of an index and a person's income is linked to that index, there seems to be an assumption that that person needs and will buy just as much of that item as before — an impossibility if it has become scarcer. It seems to me that governments, in fully indexing civil service pensions, and many benefits, to the Consumer Price Index, are making it more difficult for the necessary adjustments in consumption to be made, and are thereby helping to feed the general inflationary process. In any case, price rises of individual items which are contained in the Consumer Price Index will inevitably increase that index. I believe we cannot solve the problem the paper describes until we cease measuring the rate of inflation by that index. A way must be found to separate out items whose price rise is due to scarcity, in producing any index to which to tie incomes.

The paper discusses many other difficult problems which must be faced. Among these are Canada's declining rate of productivity growth, our increasing labour costs relative to other countries, our deteriorating balance of payments, our

In 1976 the Company's leading United States agents participated in a special Bi-Centennial Conference in Boston. Mr. Galt attended the conference and addressed the meeting at Boston's historic Faneuil Hall (the building in the background). Mr. Galt referred to the appropriateness of holding the conference in Boston in the Bi-Centennial year because of the important role which Bostonians played in American independence and because Boston is the home of the Company's United States Headquarters Office. The Sun Life established its first New England branch 50 years ago and was the first Canadian life insurance company to be licensed in Massachusetts. The building to the right of the photograph is the old Sears' Crescent building, the location of the Company's Boston Beacon Branch. On the left is the prize-winning City Hall.

poor record of labour-management relations in both public and private sectors, and the effect on export prices of the costs of environmental improvement and regional decentralization.

The paper makes a very important point when it says, "One of the major challenges posed by increasing capital requirements will be the need to generate sufficient domestic savings." The life insurance industry is, of course, making every effort to encourage and assist Canadians to increase their long-term savings.

In summary, I feel the paper is quite pessimistic about the future difficulties of bringing and keeping inflation under control. Moreover, it states that, "the pressure on governments to continue to grow rapidly and to increase areas of intervention will be intense unless inflation can be arrested and unless inflationary pressures arising in the market economy can be allayed." While this statement may well be true, it is imperative that governments successfully resist these pressures for increased intervention if we are to have any hope of controlling inflation in the long run.

In this connection, I believe that it is important that the AIB controls be largely removed as soon as possible. With inflation considerably reduced over the last year, and with spare productive capacity in our economic system, this would be a most suitable time to start to remove them. The critical problem that must be solved is that of strikes and resulting high wage settlements in essential public services. However, that problem must be faced some day, and it will be just about as difficult whenever controls are removed.

I have dealt at some length with the longer-term outlook in connection with the paper, "The Way Ahead", because it is so important that we as a country do look and plan ahead in this rapidly changing world. For that reason, I once again commend the Federal Government for producing the paper. It is not a comforting document, but it is an important one.

Coming now to the more immediate economic outlook—that for 1977—I think on a world-wide basis it is quite good. Of particular importance, of course, is the United States economy. The present high unemployment and relatively lower inflation rates have led the new administration to adopt some mildly stimulative policies. These should help the growth of that economy to

continue steadily without increasing inflation.

In general, the outlook seems good for a year of growth for the international economy as a whole, based on the expansion of the economies of the three largest industrial countries — the United States, Germany, and Japan. However, the high inflation rates and slow growth anticipated for several countries do serve to cloud the outlook somewhat.

In Canada, real growth slowed in the second quarter of 1976 and continued at a reduced level through the rest of the year. This disappointing performance was no doubt due in part to continuing high levels of inflation, and in part to the uncertainties and restraints of the AIB program. Pre-tax corporate profits showed virtually no increase during the year.

In 1977, in addition to the question of the removal of the AIB program, an important concern will be about the level of the Canadian dollar. This will affect our exports, the rate of inflation, and the outlook for business capital investment. The heavy foreign borrowing by Canadians last year kept our dollar at a rate which was too high to be healthy for our economy. While we shall have to continue relying heavily on foreign borrowing, we should do more to encourage domestic savings.

The election in Quebec last November of a government dedicated to the separation of that province from Canada has added a further major element of uncertainty for the economies of Quebec and the whole of Canada. There is a great need for factual analysis of the possible economic and other results of separation, not only to inform the voters in the promised referendum, but also to eliminate some of the uncertainty for investors. I welcome the recent decision of the C. D. Howe Research Institute to make a series of studies on the subject.

The outlook for a continued sluggish Canadian economy makes it quite probable that the Federal Goverment will move toward more expansionary fiscal and monetary policies this Spring. We have already seen three cuts in the Bank rate in an attempt to stimulate economic activity and lower the value of the Canadian dollar. Canada will also derive benefits from the improving economy in the United States. As a result, while the first half of 1977 will probably remain rather slower than last year, the second half of the year is likely to show a considerably stronger performance.

The Sun Life, of course, is very conscious of the problems arising from the recent election in Quebec. However, we are a federally chartered Canadian company doing business in many parts of the world, and it is our intention to continue into the future as a Canadian company, thereby fulfilling our obligations to our world-wide policyholders. Our very name, Sun Life Assurance Company of Canada, emphasizes to our policyholders that they are placing their trust in a Canadian company.

The more I personally consider the possibility of the breaking up of Canada, the more I feel that it would be a tragedy for all Canadians, and indeed for the free world. Canada is a country of which I have always been very proud. It was not built easily. Our forbears and our generation, too, have struggled with enormous difficulties to build it. The world badly needs countries of the size and strength of Canada that stand for democracy, justice, and individual freedom. Perhaps we Canadians have, over the years, spent too much time in self-criticism and not enough time considering how fortunate we are to live in a country like Canada. I believe we, as Canadians, can and should be proud of our country, and we should work to find solutions to our problems that will keep this country together.

Delivered at Montreal
February 8, 1977

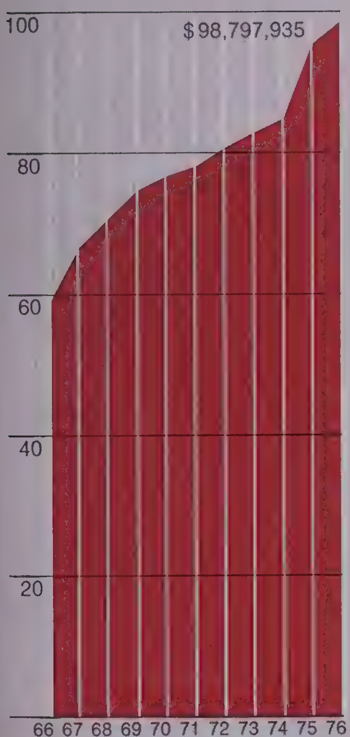
At the end of 1976 Sun Life assets amounted to $5,049 million. These funds are invested by the Company in a large variety of projects in the countries in which we operate. Three examples of Sun Life investments are pictured on this page:

The broad scope of Sun Life's investment holdings is indicated in our investment in the M.V. Queen of Coquitlam, a car/passenger ferry operating between Vancouver Island and the mainland. The Queen of Coquitlam is 457 feet long and has a capacity of 360 cars and 1,100 passengers. Sun Life is the leading investor in a group formed to finance construction of the vessel which, upon completion, was leased on a long term basis to the British Columbia government.

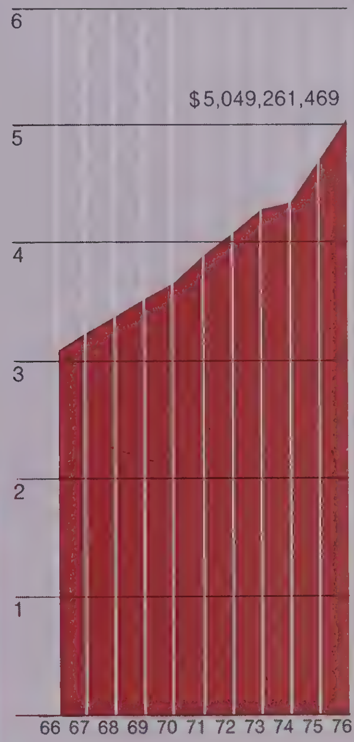
The Company owns Station House, an office block in Altrincham, Cheshire, eight miles south of Manchester. The building provides 77,000 square feet of centrally heated office accommodation on seven floors with two levels for parking.

The Company has a mortgage loan on the Tahoe Club Apartments, a 256-unit residential community 20 minutes from downtown Atlanta. There are 30 two-story garden apartment and townhouse buildings in the complex which also includes recreational facilities, a swimming pool and a three acre lake.

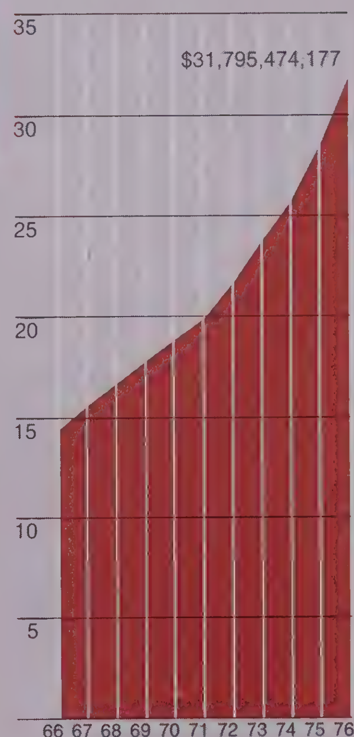
Sun Life Growth



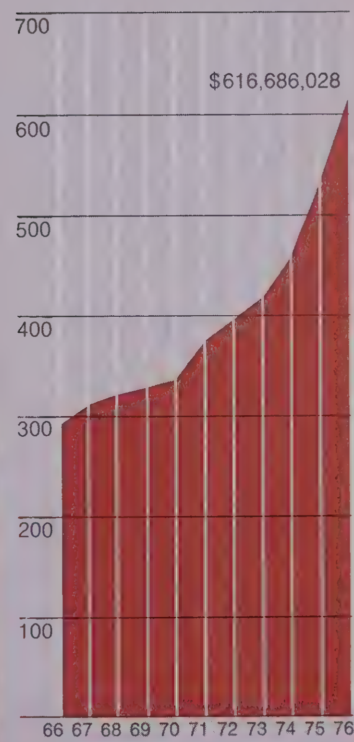
Dividends to Policyholders
in millions of Dollars



Assets
in billions of Dollars



Life Insurance in Force
in billions of Dollars



Premium Income
in millions of Dollars

Financial Statement for the year 1976

At the end of the year 1976

We held assets

Bonds	$1,896,717,780
Stocks — Preferred	23,181,692
Stocks — Common	491,860,629
Mortgages	1,308,717,473
Real Estate — Company buildings	22,259,203
Real Estate — Held for investment	308,717,266
Loans to policyholders on their policies	285,802,870
Investment in subsidiary life insurance and other related companies	8,662,000
Outstanding premiums	22,551,181
Interest and rents due and accrued	68,206,203
Cash	8,977,528
Other assets	16,650,900
Variable accumulation and other segregated fund assets	586,956,744
	$5,049,261,469

To meet liabilities

Actuarial liabilities:		
Insurances — Life and health	$2,090,338,517	
Annuities	1,111,262,776	$3,201,601,293
Policy proceeds and other amounts left at interest		339,114,897
Reserves on Company pension plans		29,611,272
Policy benefits in process of payment and provision for unreported claims		142,643,766
Provision for dividends payable to policyholders during the ensuing year		103,789,490
Taxes and expenses due and accrued		10,541,016
Miscellaneous liabilities		50,989,214
Variable accumulation and other segregated fund policy liabilities		586,956,744
Reserve for fluctuation in security values		160,000,000
Surplus		424,013,777
		$5,049,261,469

Note:

The securities are carried and shown in the financial statement at book values. The total book value of the bonds and stocks, after deduction of the reserve for fluctuation in security values, is less than the total of the market values prescribed by the insurance law of Canada.

During the year 1976

We received

Premiums for insurances — Life	$406,865,611	
— Health	63,156,332	$ 470,021,943
Premiums for annuities		146,664,085
Policy proceeds and other amounts left at interest		58,110,885
Interest, dividends and rents		328,401,674
Net gain from the sale and redemption of securities after adjustment of asset values		1,478,394
Variable accumulation and other segregated fund deposits and other income (including appreciation in assets of $33,251,807)		135,707,283
		$1,140,384,264

And distributed in

Payments to policyholders and beneficiaries:		
Death benefits	$117,598,265	
Disability benefits	3,411,484	
Matured endowments	31,615,887	
Annuity payments	46,307,125	
Dividends	98,797,935	
Surrender values	76,734,410	
Health insurance benefits	58,147,263	
Variable accumulation and other segregated fund payments	47,386,796	$ 479,999,165
Payments of policy proceeds and other amounts previously left at interest		59,408,501
Additions to actuarial liabilities required for future payments to policyholders and beneficiaries		305,647,250
Variable accumulation and other segregated fund increase and expenses		88,320,487
Operating expenses including agency commissions		149,653,584
Government taxes		32,995,714
Addition to reserve for fluctuation in security values		5,000,000
Increase in surplus		19,359,563
		$1,140,384,264

Auditors' Report

The Directors,
Sun Life Assurance Company of Canada.

We have examined the statement of assets and liabilities of Sun Life Assurance Company of Canada as at December 31, 1976 and the statement of income and expenditure for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary. The Company's securities were verified by certificates obtained from depositaries or by personal inspection. We have relied on the certificate of the Company's Actuary as to the actuarial liabilities under insurance and annuity contracts.

In our opinion, based on the books of the Company, the explanations we received, and all other information available to us, including the aforementioned certificate prepared by the Company's Actuary, the attached statements of assets and liabilities and income and expenditure present fairly the financial position of the Company as at December 31, 1976 and the results of its operations during the year then ended on a basis consistent with that of the preceding year.

(Signed) Touche Ross & Co.,
Chartered Accountants.

Montreal, Que., January 28, 1977.

Sun Life provided $100,000 worth of modern physiotherapy equipment for the Olympic Summer Games. It was used to treat 4,300 strains, sprains, spasms and other muscular-skeletal traumas in participating athletes. After the Games the equipment was distributed to several hospitals and rehabilitation centres across Canada where it will continue to be used to help many disabled Canadians overcome treatable disabilities. In the photograph above a seven-year-old boy enjoys his treatment in the whirlpool bath donated to the Ottawa Crippled Children's Treatment Centre.
(Photo, Bryce Flynn — Ottawa Citizen)

The scientist (left) at the M.D. Anderson Hospital and Tumor Institute, Houston, Texas, is engaged in investigative work which it is hoped will contribute to cancer prevention. Sun Life made a contribution to the hospital in 1976.

International Perspectives on the Company's Operations

Individual life insurance sales increased in all territories in which the Company does business and were particularly strong in Canada. The Philippines also showed a remarkable increase in new business. In Canada there was continued upsurge also in the volume of new individual annuities, where results were more than double those of the previous year. The territorial division of new life insurance business and of total life insurance in force at December 31, 1976 is shown in the following table:

	New Life Insurance	Life Insurance in Force
	(millions)	
Canada	$2,483	$22,706
United States	845	6,404
Britain & Ireland	490	2,346
Philippines & other	71	339
Total	$3,889	$31,795

During the year our Product Departments developed a number of new plans and improved existing lines to meet the needs of the different territorial markets. In Canada to complement existing annuity plans we introduced a Single Premium Deferred Annuity plan which has important tax advantages for the holder. A group dental plan will be introduced in Canada and the United States in 1977.

In Britain, our new insurance plans included the Executive 10 which has a high minimum premium and is designed to maximize the return at the end of a 10 year period. This plan was developed after changes in British income tax legislation were made, making 10 year plans more profitable for the saver. We also introduced the Individual Money Purchase plan designed to provide flexible pension arrangements for individuals and small groups. Through our British subsidiary, Sun Life Assurance Company of Canada (U.K.) Limited, we now offer the Maple Leaf Flexible Investment plan which incorporates a Managed Fund and an Equity Fund.

In the United States, product development activities in 1976 will result in revisions in some existing plans and the introduction of new ones in the first part of 1977.

Particular attention was paid in 1976 to policyholder service in the United States, and a number of improvements were made in our administration. These included new systems which were developed to provide policy information more quickly and accurately. Computer listings of Company transactions now are stored on sheets of microfilm which reduce the chance of misfiling data and make reference to material simpler.

In addition to the Company's gift of Olympics physiotherapy equipment to various hospitals and rehabilitation centres located in Canada, there were a number of other important contributions in 1976 relating to the health and medical field. In the United States a donation was made to M.D. Anderson Hospital and Tumor Institute, Houston, Texas, one of 18 comprehensive cancer centres in the United States approved by the National Cancer Institute. The hospital is working to reduce the incidence of cancer through preventative measures by determining which chemical compounds in the environment contribute to the development of cancer.

Sun Life Service Around the World

Canada

Barrie
Brandon
Calgary
Chicoutimi
Cornwall
Edmonton
Granby
Halifax
Hamilton
Kamloops
Kingston
Lethbridge
London
Moncton
Montreal
New Westminster
Ottawa
Quebec
Prince George
Regina
Rimouski
Rouyn
Saskatoon
Sept Iles
Sherbrooke
St. Catharines
St-Jerome
St. John's, Nfld.
Sudbury
Thunder Bay
Toronto
Trail
Trois-Rivieres
Vancouver
Victoria
Waterloo
Windsor
Winnipeg

United States

Ann Arbor
Atlanta
Baltimore
Belmar, N.J.
Boston
Canton
Casper
Cherry Hill
Chicago
Cleveland
Columbus
Dallas
Denver
Detroit
Grand Rapids
Hartford
Hollywood, Fla.
Honolulu
Houston
Indianapolis
Jacksonville
Jersey City
Kansas City
Los Angeles
Louisville
Miami
Minneapolis/St. Paul
Morristown, N.J.
Nashville
Newark
New Haven
New Orleans
Orlando
Peoria
Phoenix
Philadelphia
Pittsburgh
Portland, Me.
Portland, Ore.
Providence
Richmond
Sacramento
Saginaw
San Diego
San Francisco
San Juan
Santa Ana
Sandusky
Seattle
Spokane
Springfield, Mass.
St. Louis
St. Petersburg
Tallahassee
Tampa
Washington, D.C.
Wayne, N.J.
West New York, N.J.
Wilmington

Great Britain and Ireland

Aberdeen
Beckenham
Belfast
Birmingham
Brighton
Bristol
Bromley
Chester
Colchester
Croydon
Dublin
Edinburgh
Glasgow
Ipswich
Leeds
Leicester
Liverpool
London
Luton
Maidstone
Manchester
Newcastle
Northampton
Plymouth
Preston
Reading
Sheffield
Southampton
Valletta, Malta
Wolverhampton
York

Bermuda

Philippines

Executive Officers

Thomas M. Galt, F.S.A.
President
George F. S. Clarke, F.S.A.
Executive Vice-President
J. Taylor Bradbury, F.L.M.I.
Senior Vice-President
J. A. Brindle
Senior Vice-President and General Manager for Great Britain and Ireland
J. Jacques Deschênes, F.S.A., C.G.A.
Vice-President and Actuary
H. R. Facey
Vice-President, Group
F. Herbert Frizzell
Vice-President and Chief Agency Officer
Donald L. Gauer, F.S.A.
Vice-President and Actuary
S. James Gowdy
Vice-President, Personnel
John H. Harrison
Vice-President, Property Investments
W. Allan Keltie, F.S.A.
Vice-President, Underwriting
J. S. Lane, C.F.A.
Vice-President, Securities Investments
P. R. MacGibbon
Vice-President and Secretary
W. J. McCarthy
Senior Vice-President, Finance
Graham McCracken
Vice-President and General Counsel
George L. Meltzer
Senior Vice-President and General Manager for the United States
O. A. Reed, F.S.A.
Vice-President and Actuary
A. C. M. Robertson, F.F.A.
Senior Vice-President and Chief Actuary
François Vachon, F.S.A.
Vice-President and Comptroller
D. H. Woodhouse, M.D.
Vice-President and Medical Director

Principal Officers

Canada

K. M. Stewart
Vice-President, Agencies

United States

George L. Meltzer
Senior Vice-President and General Manager
H. Roy Bentley, F.L.M.I.
Vice-President, Administration
John R. Gardner, F.S.A.
Vice-President, Marketing
David D. Horn
Vice-President and General Counsel
Alexandre Parodos, F.S.A.
Vice-President, Group
David B. Wray
Vice-President, Investments

Great Britain and Ireland

J. A. Brindle
Senior Vice-President and General Manager
M. E. Bates
Treasurer
R. J. Fredericks
Legal Adviser and Secretary
P. R. Isgar
Manager of Agencies
S. J. Quirk
Actuary
S. Oram, M.D.
Consulting Medical Officer

Lithographed in Canada
45500 (ADM-1-77) 7995